Blackstone Fourth Quarter and Full Year 2023 Investor Call
January 25, 2024 at 9:00am ET

Weston Tucker: Good morning and welcome to Blackstone's fourth quarter conference call. Joining today are: Steve Schwarzman, Chairman and CEO, Jon Gray, President and Chief Operating Officer; and Michael Chae, Chief Financial Officer. Earlier this morning, we issued a press release and slide presentation, which are available on our website. We expect to file our 10-K report later next month.

I'd like to remind you that today's call may include forward looking statements, which are uncertain and may differ from actual results materially. We do not undertake any duty to update these statements. For a discussion of some of the factors that could affect results, please see the "Risk Factors" section of our 10-K. We also refer to non-GAAP measures, and you'll find reconciliations in the press release on the shareholders page of our website.

Also note that: nothing on this call constitutes an offer to sell, or a solicitation of an offer to purchase an interest in any Blackstone fund. This audio cast is copyrighted material of Blackstone and may not be duplicated without consent.

Quickly, on results: we reported GAAP net income for the quarter of $109 million. Distributable earnings were $1.4 billion, or $1.11 per common share, and we declared a dividend of $0.94, which will be paid to holders of record as of February 5th.

With that, I'll turn the call over to Steve.

Steve Schwarzman: Good morning and thank you for joining our call.

Blackstone reported strong results for the fourth quarter of 2023, including our highest distributable earnings in six quarters, which capped a volatile year for global markets. Most major equity indices rebounded from significant declines in 2022, but with wide intra year swings driven by historic movements in Treasury yields, economic uncertainty and geopolitical instability. Against this backdrop, Blackstone generated steady fee related earnings of $4.3 billion for the year, underpinning healthy distributable earnings of $5.1 billion. Performance revenues were down as expected in the context of limited realizations, as we choose to sell less in unfavorable markets. We designed the firm to provide resiliency in times of stress and captured the upside as markets recover. In the fourth quarter, as bond yields declined and markets rallied, we executed several realizations driving strong sequential growth in DE to $1.4 billion.

2023 was also a year of important milestones for Blackstone. We were the first alternative manager to surpass $1 trillion of assets under management. We were also the first in our sector to be added to the S&P 500 index, positioning our stock to be even more widely owned. We were pleased that BX shares ranked in the top 20 best performing out of the 500 stocks in the S&P 500 index last year. Blackstone is now the 55th largest U.S. public company by market cap, exceeding the market value of all other asset managers. And in December, we released our sixth annual holiday video, which has received over 8 million views - which may not say something about our limited acting skills, but it certainly says something about the Blackstone brand.

Our funds appreciated overall in 2023, highlighted by strength in credit, infrastructure, corporate private equity and life sciences, even as we weathered the difficult environment for real estate. Stepping back over the last two years, the campaign by central banks to control inflation has resulted in muted returns for most traditional asset classes. The S&P 500 returned only 3% over two years, while the median U.S. stock actually declined 9% and the REIT index was down 14%. The traditional "60/40" portfolio lost value, down 3%. In contrast, Blackstone's flagship strategies, generated positive appreciation over this period and meaningfully outperformed the relevant public indices. For example, our corporate private equity funds appreciated 12% over the past two years compared to the S&P up 3%. That's out performance of 9%. Our real estate equity strategies appreciated 1% to 6% compared to -14% for public REITs, so that's a dramatic outperformance. In credit, our private credit strategies appreciated 25% gross, while the high-yield index was up only 2%. BAAM generated a 13% gross return for the BPS composite over the past two years, a remarkable achievement in liquid markets and well ahead of the hedge fund index, which actually was down 1%. So that's outperformance of 12%. And finally, our infrastructure business appreciated 33% over the past two years, compared to only a 7% return for the S&P Infrastructure Index. That's outperformance of 26%. This outstanding performance is one of the reasons we've been able to build this platform from zero six years ago to over $40 billion today. Overall, the ability to outperform market indices over long periods of time is why the alternatives asset class - and Blackstone in particular - continue to have significant momentum.

Our limited partners have benefited from the exceptional balance of the firm and the careful way we positioned their capital in a volatile world. One of the key advantages that comes from our leading scale is having more, better and richer private data, which informs how we invest. And Jon referred to this on television today. Our portfolio consists of over 230 companies, more than 12,000 real estate assets and one of the largest credit businesses in the world. We marshal real time data across these holdings to develop macro insights that we then share across all of our businesses, allowing the firm to adapt quickly to changing conditions. We believe our access to information exceeds that of our competitors, and it positions the firm very well as we move towards a world driven by artificial intelligence - an area on which we are already very focused.

This process of aggregating data and information helps us identify trends early and often leads us to differentiated views on what's happening around the world. In early ’21, for example, it led us to the conclusion that inflation would be higher and more pervasive than the consensus expectation, and we positioned the firm accordingly. We then started speaking publicly that inflation was moderating as early as October 2022, and with increasing frequency in 2023. Data from our portfolio companies showed that input cost inflation was rapidly declining. We persisted in this view, even when the 10-year Treasury yield spiked to a 16-year high of 5% in October. As we all know, the 10-year subsequently declined over 100 basis points into year end, the opposite of what many market participants believed would happen. Our access to information is an enduring competitive advantage here at Blackstone, and this advantage grows as we grow larger.

As we move into 2024, we note that the rise in investor confidence around the shift from a restrictive monetary policy to one that is more accommodating. We now believe CPI is running below the Fed's 2% target, after adjusting the reported numbers for shelter costs, which lag what we've observed on the ground as one of the largest investors in this area. At the same time, the U.S. economy has remained quite strong. Unemployment is nearly unchanged since the start of the Fed's tightening cycle. Most consumer segments are healthy, corporate balance sheets are strong, and credit fundamentals remain solid. In our own portfolio, our companies are showing strong top line performance overall as well as earnings growth, as cost pressures have eased. We see a resilient economy, albeit one that is decelerating. What we're seeing is consistent with a soft landing.

Overall, with the cost of capital moving lower and market confidence returning, we believe we're entering a supportive environment for our business. While changing market conditions take time to fully translate to our financial results, the fourth quarter reflected an acceleration in key forward indicators, including both fund-raising and deployment. We're planting seeds and expanding invested capital in the ground and with nearly $200 billion of dry powder, our purchasing power for investments exceeds almost any other company in the world. I'll believe that we'll look back at 2023 as the cyclical bottom for our firm.

Looking forward, Blackstone is exceptionally well positioned to navigate the road ahead. Our investors can count on the dedication of our people and the enduring nature of our culture characterized by excellence, achievement, teamwork, hard work and the highest standards of ethics and integrity. Our employees embody these values, and they approach their work every day with a passion for what they do and an unwavering commitment to serving our clients. We've created an environment at the firm that is defined by meritocracy and equality of opportunity. We do not discriminate against anyone based on race, ethnic background, religious beliefs, gender, or sexual orientation. We are proud of these values. Our people want to create and build their careers at Blackstone, and there is a huge demand to work at the firm. We had 62,000 unique applicants for 169 positions in the latest analyst class, reflecting an acceptance rate of 0.271% - a dramatic change from when we started the firm 38 years ago when frankly, hardly anyone wanted to join us. This provides the foundation for the next generation of remarkable talent and will drive our growth for the foreseeable future. Blackstone is an extraordinary place and our prospects are very strong. I am highly enthusiastic about what we will accomplish for our shareholders in 2024. And with that, I'll throw the ball over to Jon.

Jon Gray: I'm happy to catch it. Thank you, Steve, and good morning, everyone. I'm proud of how we've navigated the challenging markets of the past few years by focusing on the right sectors. We believe we're now heading into a better environment as Steve noted, with inflation and cost of capital headwinds moderating. This backdrop is leading to the emergence of three powerful dynamics across our business: first, we believe that real estate values are bottoming; second, our momentum in the private wealth channel is building; and third, investment activity has picked up meaningfully across the firm, which is a key element of creating future value. I'll discuss each of these dynamics in more detail.

First, as I said, we believe values in commercial real estate are bottoming. This doesn't mean there won't be more troubled real estate investments to come in the market, particularly in the office sector, which were set up during a period when borrowing costs were much lower. Nor does it mean we won't see a slowing in fundamentals in certain sectors with excess near-term supply.

What it does mean is that the cost of capital appears to have peaked, as borrowing spreads have begun to tighten and the Fed is no longer raising rates, but likely cutting them in 2024. Also - importantly - new construction starts have started to move down sharply in commercial real estate, which is quite positive for long-term values. While it will take time, we can see the pillars of a real estate recovery coming into place.

We are, of course, not waiting for the all clear sign and believe the best investments are made during times of uncertainty. We announced three major real estate transactions in the past few months: the $3.5 billion take private of Tricon Residential, a partnership with Digital Realty to develop $7 billion of data centers and a joint venture with the FDIC to acquire a 20% stake in a $17 billion first mortgage portfolio from the former Signature Bank. We think this is just the start, as Blackstone Real Estate has $65 billion of dry powder to invest into this dislocated market.

Meanwhile, in our existing portfolio, we've absorbed the increase in interest rates and cash flows are growing, or stable, in most areas. We continue to see robust fundamentals in logistics, student housing and data centers, which together comprise the majority of our real estate equity portfolio. That said, in Q4 the value of our funds declined by 4% to 4.5%, primarily relating to two factors. First, the single largest driver was the decline in the unrealized value of our interest rate hedges as Treasury yields fell. We put these structures in place to fix our financing costs ahead of the rise in interest rates, and they have generated significant value. Second, in our life sciences office and U.S. multifamily holdings, near term performance has decelerated as new supply works its way through the system - the residual effect of construction undertaken in a low rate environment. The good news is that new supply in these sectors, and for virtually all other types of real estate, is declining materially as I mentioned.

We believe that with our exceptional portfolio positioning and large scale dry powder, our real estate business will emerge from this cycle even stronger than before.

Outside of real estate, our other businesses are demonstrating resiliency and fundamental strength. Our credit and insurance teams had a remarkable year in 2023, with gross returns of 16.4% in the private credit strategies and 13% in liquid credit. These are extraordinary results for a performing credit business. The default rate across our nearly 2000 non-investment grade credits is only 30 basis points over the last 12 months. And in our investment grade focused business, we placed or originated $30 billion of A- quality credits on average in 2023 for our major insurance clients, which generated 190 basis points of excess spread compared to comparably rated liquid credits.

In corporate private equity, our operating companies overall reported healthy revenue growth in the fourth quarter of 7% year over year, along with margin strength. On the inflation front, wage growth continued to moderate and, for the first time in two and a half years, the majority of our surveyed companies are not finding it challenging to hire workers. And finally, for BAAM: since the start of 2021 when we brought in Joe Dowling to lead the business, the composite has been up every quarter, outperforming the "60/40" portfolio by approximately 1,200 basis points.

Moving to the second key dynamic emerging in our business: our momentum in private wealth. Blackstone has been serving this channel with a dedicated organization for 13 years, and we are the clear market leader with nearly $240 billion of AUM. We've built enormous trust with our investors by delivering outstanding long-term performance, including 11% net returns annually for BREIT's largest share class and 10% for BCRED.

We raised nearly $5 billion in the channel in Q4, including $3.6 billion for our perpetual vehicles. Subscriptions for perpetuals accelerated to $2.7 billion on January 2nd, reflecting the best month of fund-raising from individual investors since June 2022. BCRED had its best month since May 2022, raising $1.1 billion in January. And our new private equity vehicle, BXPE, raised $1.3 billion in January, which we believe is the largest ever first close of its kind. BXPE will leverage the firm's full breadth of investment capabilities in private equity including buyout, secondaries, tactical opportunities, life sciences, growth and other opportunistic strategies.

At the same time, BREIT has weathered the storm in real estate markets. In December, repurchase requests were down over 50% from Q3 and down 80% from last January's peak. If current trends continue, we expect to be out of proration this quarter. BREIT's semiliquid structure has worked as designed since launching the vehicle seven years ago by providing liquidity while protecting performance. In six of those years, redeeming investors were fulfilled immediately. Over the past year, it took a little over four months on average to be substantially redeemed. We believe investor's experience of receiving double the public REIT market over the past seven years with this semiliquid structure is proof of concept. We continue to be optimistic about our prospects in the vast and underpenetrated private wealth channel, given our performance, the investment we've made in distribution and our highly differentiated brand.

In addition to private wealth, we also have very strong momentum in the insurance channel. Our AUM grew 20% year over year to $192 billion, and we have clear line of sight to $250 billion over the next several years with existing clients alone. We expect to benefit from multiple engines of growth as these clients execute pension risk transfers, additional annuity sales, new insurance block deals and separate accounts for sector specific lending.

Turning to the third key dynamic: the firm's investment activity is accelerating. Following a choppy year, we deployed $31 billion in the fourth quarter - up two and a half times from Q3 and committed $15 billion to pending transactions. We continue to emphasize key thematic areas, including digital infrastructure, enterprise software and energy transition. In private equity, we're privatizing two leading digital marketplaces, including Adevinta in Europe and Rover - my family's favorite in the pet space. We also committed to acquire an energy services software firm in the U.S. and an online payments business in Japan. In credit, borrower demand is multiples of supply today, and deployment in our credit, insurance and real estate credit businesses more than tripled in Q4 compared to the third quarter, to $21 billion. And we've also been providing creatively structured capital solutions in Tac Opps, secondaries, and BAAM. As Steve highlighted, we're planting seeds for future realizations at a favorable moment.

In closing, we're optimistic on the path ahead with multiple powerful dynamics unfolding in our business. The recovery will not be a straight line, but as always, our brand and track record will continue to drive us forward. And our shareholders stand to benefit from the firm's substantial embedded earnings power over time. And with that, I will turn things over to Michael Chae.

Michael Chae: Thanks, Jon, and good morning, everyone. The firm delivered resilient performance in 2023. And as we move forward beyond what we believe was a cyclical trough for key business lines, we are well positioned. I'll first review financial results, and then we'll discuss the key elements of the forward outlook.

Starting with results, total AUM increased 7% year over year to new record levels, led by robust strength in credit and insurance. Total inflows reached nearly $150 billion for the full year - the third best in our history - despite the challenging fund-raising environment, highlighting the firm's expansive breadth of strategies. Fee earning AUM increased 6% year over year, while base management fees rose 7% to a record $6.5 billion. Q4 represented the 56th consecutive quarter of year over year growth of base management fees at the firm. Fee related earnings were $4.3 billion for the year, or $3.58 per share - stable with the prior year - underpinned by the growth in management fees along with continued margin expansion, notwithstanding a decline in fee related performance revenues. FRE margin expanded 75 basis points to 57.8% for the full year - the highest level ever. Fee related performance revenues were $859 million for the year, with a lower contribution from real estate partly offset by a 51% year over year increase in these revenues from our direct lending business, as it continues to grow in scale and impact to the firm's financials.

Distributable earnings were $5.1 billion in 2023, or $3.95 per common share. While FRE was a ballast to earnings throughout the year, the shape of the year was driven by our sales activity. Net realizations were muted in the first three quarters as we remained highly selective amid the volatile backdrop for broader markets and asset values. In the fourth quarter, we took advantage of more favorable conditions to execute the sales of public stock across multiple holdings, along with a number of other realizations. In addition, BAAM crystallizes incentive fees for most of its open ended strategies annually in Q4, and the segment's performance revenues increased 43% year over year, commensurate with its strong overall 2023 investment performance. In total, net realizations for the firm were $425 million in the fourth quarter, up 16% year over year and up 64% sequentially from Q3.

The growth in net realizations lifted total disturbing learnings to $1.4 billion in the fourth quarter - the highest level in six quarters as Steve highlighted - or $1.11 per common share.

Moving to the outlook, the firm is moving forward with strong underlying momentum across multiple drivers of growth. First, in our drawdown fund business, we've raised over 80% of our $150 billion target for the most recent vintage of flagships, but less than half was earning management fees as of year-end. We expect this to increase to the substantial majority earning management fees by the latter part of 2024. We recently launched the investment period for our European real estate vehicle, and over the coming quarters, we expect to activate our flagships in corporate private equity, PE energy transition, growth equity, infrastructure secondaries and by early next year, GP stakes and life sciences. These funds will earn fees following their respective fee holidays. We expect to activate our corporate private equity flagship in the near term, which has raised $18 billion to date toward a target of at least $20 billion, followed by a four month fee holiday. At the same time, we are moving toward the next vintage of fund-raising for multiple strategies, including the near-term launch of fund-raising for our fifth private credit opportunistic strategy, targeting $10 billion.

Second, our perpetual capital platform has continued to expand, today comprising 44% of the firm's fee earning AUM. Key drivers of recent growth include BCRED and our infrastructure platform, which grew fee earning AUM by 26% and 21% in 2023, respectively. The comingled BIP infrastructure vehicle has achieved 15% net returns annually since inception, and its next scheduled crystallization of fee related performance revenues will occur in the fourth quarter of this year, with respect to three years of gains.

Third, in the insurance channel, AUM has reached $192 billion, up 20% year over year, as Jon noted, driven principally by our four major clients, and we anticipate substantial inflows from them going forward, underpinning strong growth in fee revenues and FRE in this channel.

Finally, with respect to realizations, we are positioned for an eventual acceleration in realizations in the context of more supportive markets, although it will take time to build the pipeline. Performance revenue eligible AUM in the ground is $505 billion, up 12% over the past two years despite volatile markets, and up over 70% in three years. We hold a large scale, high quality portfolio which is well-diversified across asset classes, regions and vintages. And net accrued performance revenue on the balance sheet stands at $5.8 billion. The firm's embedded performance related earnings power is significant. As always, our long term capital affords us the patience to optimize our exits over time as markets heal, in order to maximize value for our investors.

In closing, history has shown that Blackstone has always emerged from cycles even stronger. Our business has been built on this throughout nearly four decades. We are now in the process of emerging from a significant cycle, and we are confident that history will repeat itself again because of the power of our brand, our platform, our people and our culture.

With that, we thank you for joining the call and would like to open it up now for questions.

Moderator: Thank you. As a reminder, please press star one to ask a question. We ask that you limit yourself to one question only to allow as many questions as possible. We'll go first to Craig Siegenthaler with Bank of America.

Craig Siegenthaler: Thanks. Good morning everyone. My question is on investing. Steve, I think I first heard your bullish commentary at Davos last week, but Jon really supported it today in the prepared comments with the CMBS market reopening, the cost of capital falling, spreads are tighter, so the backdrop does seem to be a lot better than when you last hosted a call with us in October. And also your deployments and new commitments were up nicely. What is your outlook for deployments broadly in 2024 versus the $74 billion last year? It sounds like it could be a double.

Jon Gray: Craig. Love the question. I would say putting numbers on this is very hard, given the nature of the business. What we can say is, lots of good things are coming into place, right? We've got the Fed moving from tightening to lowering rates, you've got debt market spreads starting to come down a bit, you've got an equity market that has rallied. I think we're going to see, you know, the IPO market pick up. And then M&A volume is picking up as well. There are lots of companies out there who would like to sell things - private equity firms in particular - there are folks in real estate who've been frozen here for a couple of years, so you know, putting numbers on it is hard, but we would expect deal activity to pick up. It's sometimes, of course, takes time to do these things. A bunch of the deals you saw in private equity we'd been working on for some time, but the path of travel here is sort of up and to the right in terms of deal activity. Putting an exact number I think is just tough.

Weston Tucker: Thanks, Craig.

Moderator: Thank you. We'll take our next question from Crispin Love with Piper Sandler.

Crispin Love: Thanks. Good morning. I appreciate you taking my question. Can you just give us your views on the apartment sector right now? You made a pretty good sized deal in the space last week. I'm curious on your views on that deal and just apartments in general as we head into 2024, and how that stack ranks against the other sectors you're most active in in real estate and if you could see additional activity in that space.

Jon Gray: A couple of things here: the transaction we announced last week included an apartment component, but that was mostly in Canadian apartments. The vast majority of the company is focused on single family for rent. That space, because of the shortage of single family homes, has been much stronger. In the multifamily space, as we've noted here, what we've seen is, a surge of new supply that was put in place during the low rate period when values had moved up a lot and that's going to take probably 12 months, maybe a little longer to work through. Right now, rents have moved down to a level where they're pretty flat, in some cases modestly negative. And as I said, that'll take some time. The good news is multifamily construction is now down about a third, and so once you sort of work through this, we should be in a much better place. And the overall backdrop is one of a housing shortage in the United States. So, single family stronger near-term, multifamily is definitely a little bit weaker, but an overall constructive housing environment. In terms of our investment activity, it's possible you could see us invest into the weakness in multifamily because we've got a long term constructive view, even if there are some near-term headwinds.

Weston Tucker: Thank you, Crispin.

Moderator: Thank you. We'll go next to Michael Cyprys with Morgan Stanley.

Michael Cyprys: Hi. Good morning. Thank you for taking the question. I wanted to ask about the commercial real estate lending platform that you have for BXMT, to BREDS and the institutional SMAs. I was hoping you could talk a bit about how you're broadening out the platform and the capabilities, and how big of an opportunity set do you see given sort of end market pressures as well as certain constraints facing U.S. banks and other existing CRE investors?

Jon Gray: Well, we definitely think it's a good time to be a commercial mortgage real estate lender because the sentiment is so poor, and to your point Michael, capital has pulled back and banks are trying to reduce exposure. Our business today, I think, is a little over $70 billion in that space, and the nice thing about the capital we have is it really runs the gamut. We have our BREDS funds, which are more high yield in nature. We're raising the fifth vintage of that. We do transitional mortgages in Blackstone Mortgage Trust. Then we have our insurance clients who want to do more stabilized real estate. And then we also have for the insurance clients and other clients, what we do in the CMBS market around liquid securities and real estate debt. And we think this is a sector that has really lagged. If you look at spreads, they're pretty wide by historic standards. Loan to values have fallen. It's the natural thing that happens after a downturn. And so, I think this is an area that can continue to grow at a pretty good clip, just because I think you can earn very attractive returns relative to the risk. And just like on the equity side, this is an area we're going to be leaning into as we move into this year.

Moderator: Thank you. We'll go next Finian O’Shea with Wells Fargo Securities.

Finian O’Shea: Hi everyone. Good morning. Michael, appreciate your color on the flagship and management fees. Can you touch on if there’s perhaps more of a headwind to come in terms of step downs or otherwise, as you go through the flagship holiday periods? Or if it should be more of a smooth journey from here, given, of course, stable to improving deployment over the course of this year. Thank you.

Michael Chae: Sure, Finian. Yes. As we outlined, this year as opposed to last year, where I think in the second half of the year there was more of an of an absence of significant flagships lighting, BREP Europe being an exception late in the year, but there will be a series of activity we anticipate throughout the year. I mentioned the sort of the multiple funds that fit in that category. Almost all of them, as you alluded to, have a 3 or 4 month fee holiday. So we'll be sort of seeing that unfold in the course of the next few quarters. And you will see, all else equal, because of the fee holiday, some marginal pressure on that, but I think when we look at the overall growth rate and how that will layer in, we see an embedded upward ramp on management fees, although it will accelerate later in the year as opposed to earlier.

Moderator: We'll go next to Alex Blostein with Goldman Sachs.

Alex Blostein: Hi, everybody. Good morning. Thank you for the question. Another one, on real estate, maybe zoning in on core real estate for a second. And obviously lower interest rates should be really helpful to maybe reigniting some of the investor demand for that part of the market. But, how are you thinking about both institutional and retail appetite for core real estate from here, whether it's BPP or BREIT? What is sort of the level of interest rates we need to see where those products become compelling again from an investor allocation perspective.

Jon Gray: So, Alex, I don’t know if it’s necessarily exactly a certain level. I think it’s about momentum. As you know, after investors have taken losses, even if they’re modest losses, there tends to be caution. Real estate, because of the lag on when challenges materialize, will have a number of negative headlines coming out over the course of the year. And so what happens is, I think investors tend to take their time in terms of pivoting back to the space. That’s certainly what happened in the early 90s. That’s what happened in ’08, ’09. And so there’s caution. So you don’t huge sort of surge of capital flowing in on a dime. What happens is as the recovery, first you get this sort of bottoming effect, then you start to get some growth in values, and then the consensus starts to change. What happens in this period of time is you tend to get, I think, the greatest opportunities for investing, because you can see the light at the end of the tunnel, but capital hasn’t flown into the space. And then over time, as results get better, there’s limited new supply, rates have come back down, then people start to go back in because they feel like it’s safe to do. So, I think the short answer is: that will take a bit of time on both the institutional and the individual investor side, but it’s tied to performance and it will take multiple quarters of strong performance where people say, “hey, I’m comfortable doing this.” In the meantime, we should be looking to take advantage of this lack of confidence in the marketplace.

Moderator: Let's go next to Brian Bedell with Deutsche Bank.

Brian Bedell: Great, thanks. Good morning, folks. Question for Michael, and maybe Jon as well, but Michael, you've been talking about the pace of the activations of the funds. Just wanted to get your sense of the confidence of growing the fee related revenue, not including fee related performance fee, just the base revenue, being at double digit pace in 2024, it sounds like that pace will, you know, for calendar '25 would actually accelerate based on the timing of the activations throughout the year. And then if you can offer comment on your view on FRE margin for '24 excluding the impact of fee related performances. I know that that can create noise, but maybe confidence in scaling the business to have FRE margin expansion in 2024.

Michael Chae: Sure Brian. Two parts of that question. On the first one, on the sort of trajectory of management fee growth for '24 and '25, the short answer is we feel good about it. We can't, we don't have the crystal ball, necessarily, in terms of like quarter to quarter, but structurally we have that embedded ramp. As I mentioned, it will accelerate throughout the year given the series of funds that will light and we see good strength in the latter half of the year and also in 2025, as you point out. We're focused on drawdown funds. That's an important engine in the business. Obviously, among other key positive factors is insurance. You know where we've sort of had a lot of visibility and articulated it since we really started scaling this business a couple years ago about built in, in many cases, contractual inflows from our four large partners and other insurance clients, and we are pursuing the sort of the industry overall, I think, with a lot of optimism in the credit & insurance area. So, there were, I think, multiple engines, not just the new drawdowns, firing there, although again, I think it will accelerate through the course of the year into 2025. On margins, obviously, we're in a sort of more challenging macro environment, we feel good about our execution on margins in 2023 and what I would say about the outlook is, that, you know, it's early in the year and as always, we'd encourage you to look on a full year basis, not sort of measure it quarter to quarter. But with that said, you know, at the outset of a year again I would reinforce the message of margin stability as a general guidepost.

Moderator: Thank you. We'll go next to Brennan Hawken with UBS.

Brennan Hawken Good morning. Thanks for taking my question. You sort of touched on this a little bit with the margin stability point, but one thing I'm just curious about mechanically, you know, full year 2023, FRE revenue down almost 3% yet you know comp ratio up over 200 basis points FRE comp ratio. So, you know, how's it possible to generate positive comp ratio leverage when revenues are down? Does that just suggest that FRE margin might compress when revenues grow? Or just we should think about FRE margin stable? Just maybe help me understand those mechanics?

Michael Chae: Yeah, I would actually just think about it in the real world. Our ability sort of collectively to manage our cost structure, which we feel very good about. There is, I think, structurally a robust underlying long term margin position of the firm that we've demonstrated with sort of, you know, operating leverage built into our model. At the same time, you know, we believe that we take a disciplined approach to cost management and have a fair degree of control over our cost structure. And as part of that, of course, we do take into account the financial performance of each business in terms of management compensation in a given year. And I think you also saw on non-comp operating costs and operating expenses, you also saw the rate of growth in 2023 significantly lower from the prior couple of years. So, that's really how we think about it. We're not sort of takers of the environment. We actively manage our business.

Moderator: We'll go next to Ken Worthington with JP Morgan.

Ken Worthington: Hi. Good morning. Thanks for taking the question. I wanted to dig into the outlook for real estate carry. It was clearly depressed in 2023, and Jonathan, you mentioned the bottoming of real estate valuations, how long do you expect it could take for real estate carry to get back to more normalized levels? Is this something you see could possibly bounce back later in ’24? Is it sort of more obviously a 2025 sort of event, or do you expect it could take longer into ’26 or ’27? And then when real estate carry does bounce back to this sort of normal level, what does the macro picture look like at that point?

Jon Gray: Okay. Well it's always hard to have a crystal ball where things are going to develop, but clearly when you're going through a cycle like this, as we've talked about, it takes a bit of time. And even the sales process in real estate where you don't have a lot of liquid public securities, you take off the shelf and sell, that lends itself to time. So yes, I wouldn't expect a big surge in realizations in real estate in the first half of the year. We would expect as we look out over time, it will pick up. It's possible you could do larger transactions with some public companies to get things done. Certainly, our confidence as you get to the back half of the year and into ’25, you feel better about that. And so, I guess what I would say is this is a transitional year in terms of realizations in real estate. I would generally keep expectations on the lower side. I would feel a lot better as I look out over time, and the macro environment for that is a lower rate environment where we're back to modest growth - or we're at modest growth - and we have limited new supply and people are investing again in this asset class because it's delivering favorable results. So I do think on real estate realizations need a little bit of patience. I say that of course and then something will happen, but that would be our base case assumption. The good news is we feel terrific about where we've deployed the capital, the huge exposure we have in some of the very best sectors. The majority of our real estate portfolio on the equity side is in logistics, student housing and data centers, all sectors where we're seeing high single digit rates of growth even in this environment. So, when the environment gets better, we think we'll have the kinds of things the market wants, and we'll do it when we think values are appropriate. We want to maximize returns for our customers because, as you know, performance is the most important thing and we think as we come out of this cycle, just like we did out of the last real estate cycle, we're going to emerge stronger. Other competitors we don't believe will have the same kind of returns and will help us even further grow our market share. So we want to do this in the right way, and it may take a bit of time, but we feel very confident about the ultimate outcome.

Ken Worthington: Great. Thank you.

Moderator: We'll go next to Patrick Davitt with Autonomous Research.

Patrick Davitt: Hi. Good morning everyone. Despite the recovery in markets and confidence, there are still a lot of observers out there, including senior executives and some of your competitors, that seem pretty cautious on the view that this is going to be a much better private equity realizations year. Some even saying the PE marks still need a negative reset. You hinted at it in the prepared remarks, but could you expand on where you stand on that debate? And do you have any broader thoughts on why there appears to be such a wide disparity in the PE outlook amongst your peers? Thank you.

Jon Gray: Well, I guess I'd start with the facts. Last year, we were actually up year on year in private equity realizations, and generated, you know, strong realizations from that sector, which I think says something about our portfolio where we positioned it and also the marks there. So, I think our optimism comes from where we're positioned, some of the sectors in terms of digital migration, what's happening in energy transition, life sciences, a bunch of businesses in sectors that have done quite well. The fact that we had greater than 7% revenue growth in our portfolio in the fourth quarter. We saw margin expansion as costs came down. I'd say we overall feel pretty good about our portfolio. And I think it's a combination, as we've talked about, of good underlying economic growth, the right sectors, and now a more favorable sort of capital markets environment with inflation and rates coming down. So, that leads us to have some confidence here. Things can change, as we saw last year, quickly in March of last year with the bank crisis and in the late summer with rates moving up, but as we sit today, we feel pretty good. And so I think in terms of what you own, where you carry it, that leads you to your relative level of confidence, I believe. And so we still feel pretty good about the outlook in private equity.

Moderator: Thank you. We'll go next to Dan Fannon with Jefferies.

Dan Fannon Hi. Thanks. Good morning. My question is on BXPE, and was hoping to maybe talk about the addressable market for this product. I believe you typically have exclusive distribution relationships at the start, so I'm wondering when you think this will be broadly available and how that potentially could scale?

Jon Gray: Well, I'd start with the backdrop on individual investors. We've talked about it on these calls in the past, but there's about $80 trillion of wealth globally. Folks who have more than $1 million of investable assets, we estimate that that's about 1% allocated to alternatives, versus call it 29%-30% with our institutional clients. We think that has a lot of room to grow. We've shown success, obviously, and strong performance with our private real estate vehicle, our private credit vehicle, and we think the natural evolution here is a private equity vehicle. The strategy is broad based, as we talked about on the call, not just traditional corporate private equity but tactical opportunities, secondaries, growth, life sciences, really plays to our strength of this broad platform that we have. And so as we look forward here, we think individual investors will respond and of course, it's a function of how we deliver over time. Initially, we had a very strong start with that $1.3 billion first close, which reflects the relationships we built up over time. I think an interesting fact that was pointed out yesterday is: 85% of the financial advisors who allocated to BXPE in that first close, had already allocated to BREIT and even a higher percentage had allocated to BCRED showing, you know, cumulatively between BREIT and BCRED, showing that our customers feel tremendous loyalty to us. So the fact that we have these deep long relationships, we've developed confidence, we've delivered performance. I think that makes us uniquely positioned in the retail space. And we think creating access to private equity in a semi-liquid format will be more attractive. There will still be investors in the individual investor space who will invest with us in drawdown funds. But of course, you don't get all that capital back for 12 plus years, and it's got a little bit of a different structure. It lends itself to a smaller investor universe. We think there's going to be a lot of receptivity to this product. We're going to have to do like we did with BREIT and BCRED, which is deliver for the customers. As we do that, we think this product can grow to scale. We're today at $60 billion of equity in BREIT, roughly $30 in BCRED, $60 of gross assets, and we think this product has the opportunity to grow as well. But we've got to deliver for the customers, get out there, engage and do it over time.

Dan Fannon: Great. Thank you.

Moderator: Thank you. We'll go next to Ben Budish with Barclays.

Ben Budish: Hi. Good morning and thanks for taking the question. I want to ask on the insurance inflows. I guess first for the quarter, as your inflows really picked up quite a bit versus Q3 and I think came in nicely ahead of where you had initially at least come indicated last quarter you were looking for the year. So was there any sort of pull forward, did that sort of change the outlook for 2024? And then just thinking tactically, you indicated you'd get to the $250 over the next several years. Can you be any more specific? You know - what does several mean? How should we be thinking, you know is this $15, $20 billion over the next like 3 or 4 years? How should we be thinking about that, just as we're kind of fine tuning our models? Thank you.

Michael Chae: Hey Ben. It's Michael. I think overall there's really good momentum, sort of embedded in our insurance and credit business. And then just in terms of in real time, the interest inflows we're seeing. To answer your first question, we don't, the sort of drivers of the inflows I don't think involve sort of a pulling forward from 2025. It was a balanced attack across, you know, credit & insurance between our insurance clients, direct lending, which we highlighted in the 8K, $7.5 billion not just from BCRED, but also from institutional clients, our CLO platform, our ABF platform, and so on. So I'd say very diversified, sort of balanced attack, if you will. I think in terms of the inflows we see in the insurance area specifically, you know, I think earlier in 2023, we talked about sort of a general range and target of $25 to $30 billion of inflows from the four major partners. We actually came in a bit above the high end of that range. And this year I would just say as a starting point, not necessarily an ending point, but a starting point starting point, we see baseline expected inflows from those for clients in that range or better.

Jon Gray: And I would just add, given our model - which is an open architecture - the opportunity to do SMAs with other individual insurance clients, not necessarily these four large strategics, we think that opportunity is significant. And of course, we're out there looking for other strategic partners. And our plan, as you know, is to run a capital light insurance business, managing money and doing it for a wide variety of clients. Given the performance, what we've been able to deliver in terms of credit quality and yield premium, we think we'll attract more insurance companies. So, this is an area we believe of real momentum, and we think we have multiple engines of growth and we're going to be at it and having these four anchor clients is very helpful.

Ben Budish: Got it. Thank you very much.

Moderator: We'll go next to Mike Brown with KBW.

Mike Brown: Great, I want to just ask on the fee rates in the real estate and the credit business. We noticed that they declined in the fourth quarter. And, you know, understanding that's an output and can be noisy quarter over quarter. Do you view this as being the right jumping off point into 2024? And could you just help us think about maybe the blending of the fee rate kind of go forward basis as we think about the push and pull of kind of the lower fee rate insurance AUM contrasted with the higher fee high net worth AUM inflows.

Michael Chae: Sure, Mike. Look, I think overall, if you look at our across the firm, sort of the math of our average management fee rate across the whole firm, it's been, I think, remarkably stable over multiple years. If you look at more recently in the last quarter, at the specific segments you mentioned, you know in credit & insurance, if you just do the math, I think, it was down like a basis point. So I think it is it is quite stable, even though the growth, the tremendous and attractive and I think high margin growth in our insurance area, that does come at a lower sort of weighted average management fee. And so, I think to the extent there's been aggregate dilution at the margin or a lowering at the margin over the last few years, it's been, a lot of that is the insurance flows, and obviously we'll take that. And if you look, sort of excluding the insurance solutions business, the fee rates have been really, really stable. In real estate, I think, quarter over quarter, there was the effect of the Signature debt portfolio coming in, which is $17 billion actually fee earning AUM. That's obviously an exciting transaction. We do earn different tiers of fees across most of those assets. We earn fees from the BREDS equity we're putting in. We earn a different fee on our co-invest capital. And then an overall fee on the asset portfolio, which is at a lower rate, which is how that works with these sort of large scale debt asset portfolios. So that is the largest explainer, I think of, the little bit of, lowering of the management fee between quarter over quarter.

Mike Brown: Thank you, Michael.

Moderator: We'll go next to Steven Chubak with Wolfe Research.

Steven Chubak: Hi. Good morning. So I wanted to ask a question on election game theory and I recognize Jon, that you don't have a crystal ball. You already covered that which is given the likelihood of a Trump Biden rematch, potential changes in protectionist policies, energy transition, infra what have you. You alluded to accelerated deployment across the platform. Would you see any risk of an activity air pocket until we get improved election clarity? And how does it inform your own approaches to managing the portfolio and your dry powder across the different strategies?

Jon Gray: Well, I think they'll be obviously intense focus on the election, but I think it will not deter transaction activity, particularly if inflation keeps coming down and the Fed starts cutting interest rates. I think that will be more dispositive. There are sectors which may be more or less affected depending on which party wins here, although it's very possible that one party wins in terms of the presidency and another party might win in terms of the, you know, the House and so forth. And so you end up with divided government and policy changes overall are more moderate. I think the most important thing to remember from our firm standpoint is we take a long term approach when we're investing capital, and we try not to get caught up in just the news of the day. And if you look at our firm over the nearly 40 years since Steve founded it here, we've been in governments where we've had blue, red, purple, and we've delivered for our customers in those environments and since 2007, delivered for our shareholders. We don't expect that to be any different. But I'd say transaction activity is going to be more tied to the Fed's activities than the election, and for us, it's taking this long term approach, but also keeping an eye on are there areas that are more sensitive politically. But overall, if we think it's a good time to deploy capital, we're not going to let the election prospects dissuade us.

Steven Chubak: Helpful color, Jon.

Moderator: Thank you. We'll take our next question from Bill Katz with TD Cowen.

Bill Katz: Thank you very much. I appreciate you taking the question. So maybe circling back to the credit platform for a while. I appreciate that you have a multi vectored opportunity set there, but there's been some building debate in the market around the outlook for direct lending in light of the fact that perhaps the issues around the banking system are starting to stabilize and as a result of that sort of pick up in the syndicated loan market. How do you sort of think it plays through in terms of direct lending opportunity, in terms of both unit growth as well as spreads? Appreciate you have a very big fund in the market - but just your broader thought process and how it plays out from a competitive and a return perspective? Thank you.

Jon Gray: Thanks, Bill. I think on the direct lending front specifically there is more capital coming into the market today. As you said, the banks are coming back, although their appetite for bridging things for long periods of time I still think is a little more limited. There are other players coming into the direct lending space. The good news, going back to the earlier conversation, is we're seeing a pickup in transaction activity. And so although the supply of capital may be picking up here, I think the demand for that capital will grow. I'd also say for us specifically with $100+ billion in the space, our ability to write very large checks is a very significant competitive advantage. So the fact that we can commit to a multibillion dollar transaction on our own across our various private vehicles, our BDCs, that is really helpful. And structurally, I think the direct lending's competitive advantage is our ability to give borrowers certainty. From the bank's standpoint, of course, they've got to have some flex because they want to distribute that paper. They don't want to take losses. We, because we're in the storage business, can offer that borrower certainty. And so particularly on new originations, we think that is an area that will continue to be strong for direct lending. We think the pickup in deal activity will be helpful here, and we think our scale will certainly be helpful. So yes, I think the environment does get a little more competitive. The good news is the credit quality of what's being originated still feels very good. I mean the average loan to value last year for us in our direct lending was only 40%, a fraction of what it was let's say, 15 years ago. And you look across our portfolio in direct lending, and defaults are almost nonexistent, which is quite remarkable. So the platform seems to be in good shape. There may be more capital coming to the space, but I think there'll be more deal flow as well. So that's a positive.

Bill Katz: Thank you.

Moderator: Our final question will come from the line of Arnaud Giblat with BNP.

Arnaud Giblat: Good morning. I was wondering if you could discuss the outlook for performance fee related revenues of BREIT and BPP in 2024. Given what you said on high levels of competition in multifamily and what that does to rent growth, and also given the potential for falling rates in the U.S., how should we think about the potential for lower cap rates and valuations versus a movement in hedges? Thanks.

Jon Gray: Well I would say this. I go back to the big picture here, which we talked about, which is we do think we're seeing a bottoming in values, but we don't think this is some sort of v-shape recovery. And so for us, we've said we think it's a very good time for deployment. Putting your finger on exactly what values will move to is hard to do, but certainly rates coming down, new supply coming down, are helpful for the sector. I would say this, I would expect this year will certainly be better, would be my expectation from a valuation standpoint relative to ’23. But making predictions on exactly where it lands, I think that's tough to do this early in the year, but there are some good fundamental things happening on the ground.

Moderator: That will conclude our question and answer session. I'd like to turn the call back over to Weston Tucker for any additional or closing remarks.

Weston Tucker: Great. Thank you everyone for joining us today and look forward to following up after the call.